Questions & Answers

Regarding the FHA Mortgage Assistance Initiative as announced in ML 05-46.

1. Who Is Eligible?

Borrowers who:

- Have an FHA insured first mortgage on their primary residence.

- Live or have full time employment in a county or parish in Alabama, Florida, Louisiana, Mississippi or Texas that FEMA has declared to be eligible for individual assistance as a result of Hurricanes Katrina, Rita or Wilma;

- Are temporarily unable to make monthly mortgage payments due to a verifiable loss of income, increase in living expenses or property damage to their principal residence attributable to Hurricanes Katrina, Rita or Wilma;

- Are expected to have the ability to resume making full mortgage payments after all mortgage assistance funds have been applied (not to exceed a total of 12 monthly payments);

- Own a principal residence that is habitable or can be made habitable;

- Are committed to continued occupancy of the property as a primary residence;

- Have missed at least four but not more than 12 mortgage payments on a FHA insured loan.

2. What mortgage assistance is available?

The amount needed to cover monthly mortgage obligations for principal, interest, taxes and insurance (PITI) currently in default plus amounts needed to cover monthly PITI obligations that will become due and payable before the date the borrower is expected to be able to resume full monthly mortgage payments. The total assistance provided may not exceed an amount equivalent to 12 months of PITI.

3. How is this different from HUD's standard partial claim option?

Under HUD's loss mitigation program, a mortgagee can only file a partial claim after advancing all the amounts necessary to reinstate the loan (not to exceed 12 months PITI). Further, the borrower must have overcome the reason for the default at the time of the advance and have the ability to resume full monthly mortgage payments following application of the funds. Under the mortgage assistance initiative, the mortgagee can submit a claim on a loan that is four or more months past due and, subject to the maximum assistance amount of 12 months PITI, include in the claim amounts that will be needed to cover future monthly mortgage obligations that will become due and payable prior to the date the borrower is expected to be able to resume the full monthly mortgage payment. This feature provides more immediate relief to resolve mortgage defaults and gives lenders the ability to assist more borrowers experiencing financial difficulties attributable to Hurricanes Katrina, Rita and Wilma.

Also, HUD's standard partial claim option is not available if a property is vacant or significantly damaged, whereas the FHA mortgage assistance option may be used if a property was vacated as a result of the hurricanes or suffered substantial disaster related damage, as long as the borrower is committed to repairing the damage and continuing to occupy the property as a primary residence.

4. Do the mortgage assistance funds have to be repaid?

Yes. The borrower must execute a note and subordinate mortgage payable to HUD for the amount of the mortgage assistance provided. However, no interest is payable on the mortgage assistance funds and repayment is not required until the balance of the FHA-insured first mortgage is paid in full either through amortization or early payoff.

5. Can mortgage assistance funds be used for property repairs or other purposes?

No. All mortgage assistance funds must be applied toward mortgage obligations for principal, interest, taxes and insurance (PITI). If the property securing the loan has suffered storm damage, the borrower must demonstrate that sufficient funds are available from insurance loss settlements and/or other sources to return the home to a habitable condition. Borrowers who have the ability to repay additional debt can obtain low interest disaster loans from the Small Business Administration (SBA) for property repairs not covered by insurance.

6. How does a borrower take advantage of the FHA Mortgage Assistance Initiative?

Borrowers should contact their mortgage lender at the earliest possible time following default. The mortgage lender will ask for information about the extent of the property damage, if any; the borrower's employment and income status; the availability and amount of anticipated hazard and flood insurance claim proceeds; and any other sources of funds the borrower will have to pay for needed repairs.

7. What if the property has not been damaged but the borrower is unemployed as a result of the hurricanes?

Many properties in the counties eligible for individual assistance were not physically damaged by the hurricanes, yet the property owners have experienced a temporary or permanent loss of employment as a result of business closures. Any FHA insured borrower who had full time employment in a county or parish in Alabama, Florida, Louisiana, Mississippi or Texas that FEMA declared to be eligible for individual assistance, and who has experienced a significant loss of income due to temporary or permanent employment disruption, may also be eligible for FHA mortgage assistance.

8. How does a mortgage lender determine if a borrower is eligible?

Mortgagees will review the financial and insurance information provided by the borrower to determine if the borrower has a commitment to continuing to live in the property as a primary residence **and** has adequate financial resources to complete the needed repairs and resume making full mortgage payments within 12 months. If the borrower is currently unemployed as a result of the hurricanes, the mortgagee will need documentation that the borrower is expected to return to a former job within 12 months, or has a high likelihood of finding new employment that will provide sufficient income to support the mortgage payments.

In conducting this evaluation, mortgagees are not required to adhere to all of the provisions of Mortgagee Letter 2000-05, Section H - *Evaluation of the Borrower's*

Financial Condition. However, they must independently evaluate the financial, insurance and employment information provided by the borrower using those forms of verification the mortgage lender deems appropriate.

9. What if the borrower is unable to resume mortgage payments after all available mortgage assistance funds have been applied?
The special mortgage assistance funds are only available to borrowers who are expected to have the capacity to resume full mortgage payments and will occupy the home as a principal residence. If an eligible borrower is subsequently unable to resume making the full monthly mortgage payments due to an unanticipated change in circumstances, the lender may offer a long term repayment plan, known as a special forbearance or may permanently modify the mortgage to resolve the default under a special provision only available to borrowers in the FEMA designated individual assistance areas.

10. What is a mortgage modification?
A mortgage modification is a permanent change to one or more of the provisions of a mortgage, for example a reduction in the interest rate, an extension of the number of months the borrower has to repay the debt or a change in the principal amount due. Generally, a borrower is not eligible for a mortgage modification if he or she has already used a partial claim to reinstate a delinquent mortgage. However, under special authority available only to borrowers who live or work in the FEMA designated individual assistance areas, a borrower who previously utilized a partial claim or the FHA mortgage assistance option, and subsequently defaults on the mortgage for reasons related to the disaster, may be eligible for a mortgage modification.

11. Who qualifies for this special modification option?
Any borrower living or working in a FEMA designated individual assistance area, who has a verifiable loss of income or increase in expenses as a result of the disasters may be considered for a mortgage modification even if they previously utilized a partial claim or FHA mortgage assistance claim. Borrower's who wish to be considered for this option should contact their mortgage lender. Lenders will conduct a financial evaluation as described in question 8 to determine eligibility. The mortgagee may add delinquent payments as well as other accrued expenses such as legal fees (subject to strict limitations established by HUD) to the unpaid principal balance and then extend the payments out for a longer period of time (up to 360 months), however, the modification must result in a reduced monthly mortgage payment that the borrower can afford.

12. Is any help available for borrowers who are not eligible for mortgage assistance advances?
Borrowers who are not eligible for this assistance may qualify for some other form of relief under HUD's loss mitigation program. Information on available help for homeowners can be found on HUD's website at:
http://www.hud.gov/offices/hsg/sfh/econ/econ.cfm

13. Does HUD offer any other sources of funding to pay for repair or replacement of properties with disaster damage?
Yes. HUD has two programs that may be options for borrowers in need of additional repair funding.

- **203h** – Under the 203(h) program, FHA insures mortgages for victims of a major disaster who have lost their homes and are in the process of rebuilding or buying another home. Individuals are eligible for this program if their home -- whether they owned their home or rented-- was located in an area designated by the President as a disaster area, and their home was damaged to such an extent that reconstruction or replacement is necessary.

- No down payment is required under the Section 203(h) program. Subject to maximum loan amount restrictions, eligible individuals who are able to qualify for a mortgage through FHA's underwriting guidelines can obtain 100 percent financing for purchase of a home anywhere in the United States. For more information, visit HUD's website at: **http://www.hud.gov/offices/hsg/sfh/ins/203h-dft.cfm**

- **Standard 203k** – This loan program allows borrowers to obtain a single loan for both the purchase and rehabilitation of a property that needs extensive repair. A 203k loan can be used to buy a new home, or to refinance an existing loan, even if the original loan is not FHA insured.

- **Streamlined 203k** – This loan is similar to the 203k but is specially designed for properties that require only limited repairs that will cost between $5,000 and $15,000. Under this program, a homebuyer can finance into the mortgage an additional amount up to $15,000 to be applied toward the repair and rehabilitation of the home.

  More information regarding both of these home repair loan programs can be found on HUD's website at: **http://www.hud.gov/offices/hsg/sfh/203k/203kmenu.cfm**

For more information about any of HUD's loan programs contact a HUD-approved lender or call the HUD National Servicing Center Hotline at: 1 (888) 297-8685.